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January 29, 2020

Via Email to: TWC.fraud@TWC.state.tx.us

Texas Workforce Commission
101 E. 15th Street
Austin, TX 78701

Attn. Fraud Division

Re: Mahesh Shetty v. SG Blocks, Inc.
TWC Wage Claim No. 19060360-1

To Whom It May Concern:

This letter serves to report a fraudulent wage claim filed by Mahesh Shetty (“Shetty”) seeking payment for wages allegedly owed to Mr. Shetty by SG Blocks, Inc (“Company”). The applicable wage claim is identified as TWC wage claim number 19060360-1. Mr. Shetty filed a wage claim, first received by TWC on November 25, 2019¹, claiming \$397,638 for unpaid wages and bonuses due for the period July 31, 2017 to August 15, 2019. Substantially all of the amounts claimed by Shetty were statutorily time barred under Texas Workforce rules which only permit claims for a period of 180 days.

As a current Certified Public Accountant and the former Chief Financial Officer and President of the Company, Mr. Shetty is fully aware that he is not owed any wages or bonuses for the 2017 and 2018 time period. Notwithstanding such Mr. Shetty has submitted a fraudulent claim for wages totaling \$210,138 allegedly owed for this same time period. Specifically, Mr. Shetty,

¹ Although not filed until November 25, 2019, the claimant’s attorney’s cover letter to TWC is dated January 18, 2019, more than ten months prior to the actual filing.

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during the time he was President and Chief Financial Officer, personally oversaw the Company's implementation of a stock incentive plan (the "Plan") whereby the Company issued to employees, including Mr. Shetty himself and Paul Galvin, the Company's Chairman and Chief Executive Officer, Restricted Stock Units ("RSUs") in lieu of cash compensation.

By letter dated November 6, 2019, the Company informed Jaime Ramon, Esq., Mr. Shetty's counsel, that there was no basis whatsoever for Mr. Shetty's sudden claim for past due wages and bonuses, and provided Mr. Ramon with documents substantiating the lack of merit to any claim for same for 2017 and 2018. Specifically, the Company provided Mr. Ramon with (i) excerpts from the minutes of the Company's Compensation Committee, dated March 22, 2019 ("Minutes"), (ii) Restricted Share Unit Agreements ("RSU Agreements") executed by and between Shetty and the Company documenting Shetty's receipt of Restricted Share Units in satisfaction of deferred compensation. Copies of the November 6, 2019 letter to Shetty's counsel and the RSU Agreements are attached hereto as Exhibits 1 and 2, respectively.

The Minutes provided, in pertinent part, the following:

"For the two executive officers of the Company, [] and Mahesh Shetty, the Committee approved bonus payments of [] and \$75,000, respectively. These payments are based on 25% of target bonus amounts and will be paid in RSUs. ...

The Committee did approve the payment of 2018 base salary amounts that [] and ***Mr. Shetty had voluntarily chosen not to receive as earned.*** These amounts are [] and \$106,856, respectively, will be paid in RSUs.

The RSUs received by [] and Mr. Shetty for deferred salary and annual bonus will vest on December 31, 2019 and be delivered to [] and Mr. Shetty on January 1, 2020. The RSUs will be based on the closing price of the SGBX stock on February 26, 2019.

As a result of Shetty's agreement to receive RSUs in satisfaction of deferred compensation, liabilities for such compensation that appeared in the Company's audited financial statements in 2017 and 2018 were amortized on a monthly basis in 2019 to match the RSUs vesting period. The monthly amortization over the course of 2019 reduced the deferred compensation liabilities from the Company's 2019 financial statements, all with the knowledge and consent, and at the direction of Shetty. Insofar as the Company is publicly traded on the NASDAQ exchange (SGBX) accurate reporting of the Company's financial condition, including its liabilities, is material information upon which the market and investors are entitled to rely on as to their truthfulness and accuracy. The truthfulness and accuracy of the Company's financial statements in 2019 were verified to, under penalties of perjury, by Shetty. Indeed, in the Company's 2019 Form S1 filed with NASDAQ, approved by Shetty, no amount of money was shown to be owing to Shetty during the period 2017-2018.

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At the time that Shetty filed his \$397,000 TWC claim, under penalties of perjury, which, as stated, included a claim of \$210,000 for wages and bonuses allegedly owing for 2017 and 2018, Shetty knew that his statements therein materially false, and otherwise contradicted his and the Company's prior financial statements that removed any liability owing to Shetty for wages and bonuses for the years 2017 and 2018. Moreover, at the same time that Shetty filed his TWC he was simultaneously demanding, *inter alia*, that the Company pay him \$400,000 in connection with his separation from the Company in August 2019. The timing of the TWC, with the aforementioned material misrepresentations and omissions, was designed to give Shetty additional leverage in negotiating a payout to which he was not otherwise entitled, and is further evidence of bad faith and an abuse of the TWC and Texas Labor laws.

According to the TWC website concerning fraudulent wage claims, reportable violations of the Texas Labor Code include, but are not limited to, the following examples

- Obtaining unemployment insurance benefits by misrepresentation;
- Authorizing an improper claim for others;
- Nondisclosure of material facts;
- Failing to follow applicable rules, regulations, policies, procedures, and laws.

SG Blocks asserts that Shetty's claim for \$397,638, which included a claim of \$210,000 for wages and bonuses allegedly owing for 2017 and 2018 in satisfaction for which Shetty has received Restricted Stock Units, constitutes a fraudulent wage claim under the aforementioned violations. The Company requests that the Texas Department of Labor conduct an independent investigation of the deceptive practices outlined herein and take all action it deems appropriate upon the conclusion thereof.

Sincerely,

/s/ Steven A. Soulios

Steven A. Soulios, Partner
Ruta Soulios & Stratis, LLP

cc: Jaime Ramon, Esq. (via email, w/o enc)